

## Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 NEA-10 ISO-00 AGR-05 CEA-01 CIAE-00

COME-00 DODE-00 FRB-03 H-02 INR-07 INT-05 L-03 LAB-04

NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15 STR-04

TAR-01 TRSE-00 USIA-06 PRS-01 SP-02 FEAE-00 OMB-01

XMB-02 OPIC-03 /107 W

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FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC PRIORITY 5045

INFO AMEMBASSY LONDON

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SUBJ: ENVIROMENT FOR US/IRAN FINANCIAL CONFERENCE

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1. SUMMARY. WITH THE IMMINENT PROSPECT OF A JOINT US/IRAN  
FINANCIAL CONFERENCE BEING HELD MARCH 2 AND 3 AND ON THE EVE  
OF CENTRAL BANK GOVERNOR MEHRAN'S VISIT TO THE US, IT SEEMS  
USEFUL TO REVIEW THE ENVIORNMENT IN WHICH THE CONFERENCE MAY  
OCCUR. REFERENT MESSAGES PROVIDE CONSIDERABLE DETAIL ABOUT  
THE GENERAL ECONOMIC SITUATION HERE AND WHAT TRANSPIRED AT  
THE OCTOBER 1975 UK/IRAN FINANCIAL CONFERENCE. THE ECONOMIC  
EUPHORIA OF A YEAR AGO HAS EVAPORATED THROUGH A COMBINATION  
OF GOI POLICIES WHICH HAVE CIRCUMSCRIBED BUSINESS ACTIVITY  
AND DOWNWARD ADJUSTMENTS IN PUBLIC EXPENDITURES WHICH ARE  
MORE CLOSELY RELATED TO ACTUAL INCOME EXPECTATIONS.  
BUDGETARY CONSTRAINTS AND FISCAL BALANCE OF PAYMENT

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DEFICITS, HOWEVER, SHOULD NOT OBSCURE AN ESTIMATED 16

PERCENT GROWTH IN IRAN'S ECONOMY THIS YEAR, POWERED MAINLY BY STRONG CONSUMPTION AND INVESTMENT EXPENDITURES. THE MONETARY SECTOR REFLECTS HIGH GROWTH IN ALL RESPECTS AND THE DEMAND FOR SERVICES CONTINUES TO INCREASE ALTHOUGH THE FINANCIAL INFRASTRUCTURE IS WEAK AND NEEDS MUCH IMPROVEMENT. AT THE WORKING LEVEL IRANIANS IN BOTH THE PUBLIC AND PRIVATE SECTOR SEEM WEARY OF MEETINGS WITH FOREIGN VISITORS AND SALES PITCHES. AT THE POLICY LEVEL, HOWEVER, THERE APPEARS TO REMAIN CONSIDERABLE ENTHUSIASM FOR AN EXCHANGE OF IDEAS AND EXPERIENCE WITH SENIOR FOREIGN BUSINESS REPRESENTATIVES AND GOVERNMENT OFFICIALS. THE OBJECTIVES OF THESE MEETINGS ARE NOT ALWAYS CLEAR OR WELL DEFINED AND THERE IS AN INCLINATION TO CHARACTERIZE THEM AS IRANIAN RESPONSES TO FOREIGN INITIATIVES ALTHOUGH THIS IS NOT ALWAYS THE CASE. THE PROPOSED US/IRAN FINANCIAL CONFERENCE IS AN EXAMPLE. END SUMMARY.

2. THE IRANIAN BUSINESS CLIMATE RECEIVED A NUMBER OF JOLTS BEGINNING MID-1975 WHOSE NEGATIVE EFFECTS ARE STILL INFLUENCING DECISIONS TO INVEST, PRODUCE AND IMPORT. THE CAUSES WERE THE GOI'S ANTI-PROFITEERING CAMPAIGN, THE SHARE PARTICIPATION PROGRAM FOR THE DIVESTITURE OF INDUSTRIAL STOCKS, CEILINGS BY SECTOR ON FOREIGN INVESTMENT AND EXPENDITURE CONSTRAINTS CAUSED BY THE GOI'S FISCAL SQUEEZE. CERTAINLY, THE BUSINESS EUPHORIA OF A YEAR AGO HAS DIMINISHED AND IRAN NOW FACES THE HARD REALITY OF A FISCAL SQUEEZE COINCIDENT WITH THE BOTTLENECKS OF TRANSPORTATION AND MANPOWER. NEVERTHELESS, ACTIVITY IN THE MONETARY SECTOR AND THE DEMAND FOR FINANCIAL SERVICES ARE STRONG. REALIZATION OF THE NEED TO DEVELOP THE FINANCIAL MARKET IS GROWING AND THE CURRENT PERIOD OF ECONOMIC CONSOLIDATION MAY PROVIDE A MORE OPPORTUNE TIME TO ADDRESS THE INEFFICIENCIES OF THE FINANCIAL SYSTEM. THE CENTRAL BANK OF IRAN(CBI) IS OFFICIALLY DISCOURAGING THE ESTABLISHMENT OF NEW BANKS, IS COOL ON BANK JOINT VENTURES, BUT CONTINUES TO APPROVE APPLICATIONS FOR BANK REPRESENTATIVE OFFICES. THERE ARE CURRENTLY 35 BANKS OF WHICH 13 HAVE FOREIGN PARTICIPATION AND OVER 50 FOREIGN BANK REPRESENTATIVE OFFICES NOW OPERATING IN IRAN.

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3. THE SLOWING OF ECONOMIC GROWTH FROM A 42 PERCENT RATE IN 1974/75 TO THE ESTIMATED 16 PERCENT FOR THE IRANIAN YEAR ENDING MARCH 20, 1976 WAS IN THE MAIN ANTICIPATED SINCE THE FOUR-FOLD RISE IN OIL EXPORT REVENUES OBVIOUSLY WAS NOT EXPECTED TO BE REPEATED. BUT THE LEVEL OF ECONOMIC ACTIVITY HAS FALLEN BELOW EXPECTATIONS OWING TO LOWER-THAN-ANTICIPATED OIL REVENUES IN THE FACE OF LARGER-

THAN-ANTICIPATED IMPORTS AND INCREASES IN GOVERNMENT COSTS. THUS, DEFICITS ARE NOW FORESEEN THIS IRANIAN YEAR IN BOTH THE FISCAL AND BALANCE OF PAYMENTS ACCOUNTS. THE PRELIMINARY BUDGET FOR THE CURRENT IRANIAN YEAR DESIGNED TO EXPAND WITH OIL REVENUE INCREASES HAS BEEN MODIFIED DOWNWARDS FROM ANTICIPATED REVENUE INCREASES THREE TIMES AND THE BUDGET FOR NEXT YEAR(YEAR 1355) IS TO BE HELD TO ABOUT 15 PERCENT INCREASE OVER THE PRELIMINARY 1354 BUDGET. IT IS ANTICIPATED THAT FOREIGN EXCHANGE RESERVES WILL FALL TO THE DOLS 5.5 TO 6.0 BILLION LEVEL, ABOUT A 4.5 MONTH'S MERCHANDISE IMPORTS COVERAGE AT THE 1354 RATE. SIZEABLE EXTERNAL BORROWINGS ARE EXPECTED IN THE NEXT YEAR IN ORDER TO MAINTAIN EXCHANGE RESERVES IN THE FACE OF ANOTHER ANTICIPATED EXTERNAL PAYMENTS DEFICIT.

4. THE MONETARY SECTOR SHOULD POST GROWTH RATES SIMILAR TO THOSE OF YEAR 1353. GROWTH OF MONEY AND QUASI-MONEY IS AT ABOUT 60 PERCENT? CLAIMS ON THE PRIVATE SECTOR FOR THE YEAR ENDING OCTOBER 22 WERE UP 57 PERCENT. DEPOSIT GROWTH WAS UP 53 PERCENT AND ASSETS OF THE BANKING SYSTEM WERE UP 55 PERCENT FOR THE SAME PERIOD. AT 376 BILLION RIALS, REGISTRATION OF IMPORT INTENTIONS ARE UP 66 PERCENT. INFLATION HAS BEEN MODERATED AND THE GAP BETWEEN NOMINAL INTEREST RATES ON DEPOSITS AND THE EFFECTIVE, RELATED RATE IS THUS CLOSING. COMMERCIAL BANKS ARE IN GENERAL LOANED UP AND INDIVIDUAL ARRANGEMENTS ARE BEING MADE WITH THE CBI FOR RELIEF FROM THE 40 PERCENT

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FM AMEMBASSY TEHRAN  
TO SECSTATE WASHDC PRIORITY 5046  
INFO AMEMBASSY LODDON

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CREDIT EXPANSION CEILING. COMMERCIAL BANK PROFITS, WHICH AT 13 BILLION RIALS IN 1353 PROVIDED AN AVERAGE RATE OF RETRUN OF 27.44 PERCENT, ARE EXPECTED TO MODERATE THIS YEAR BUT NONETHELESS POST ATTRACTIVE RATES.

5. THE MOOD OF MANY IN THE IRANIAN FINANCIAL COMMUNITY TOWARD ANOTHER FINANCIAL CONFERENCE SEEMS GENERALLY COOL. THEY ARE WEARIED OF CONFERENCES WHICH THEY OFTEN TEND TO FORGET THEY GENERATED. TYPICALLY, EVEN THOUGH IT IS THE FULFILLMENT OF AN IRANIAN INITIATIVE, THEIR ATTITUDE IS ONE OF "WELL, WHAT CAN WE DO FOR YOU FOREIGNERS?" ALSO, DESPITE IRAN'S APPARENT ROLE IN SETTING THE MARCH DATES FOR THE US/IRAN FINANCIAL CONFERENCE, WORKING LEVEL IRANIANS CONSIDER THE LEAD TIME TOTALLY INADEQUATE. FURTHER, EMBASSY CONTACTS WITH A NUMBER OF KEY IRANIAN FINANCIAL PERSONALITIES REVEALED AN EVALUATION OF THE UK/IRAN CONFERENCE QUITE CONTRARY TO THE PERCEIVED BY THE BRITISH. VIEWS RANGE FROM A "FLOP" TO A "CONVENIENT METTING WITH BRITISH EXPERTS WITH LITTLE RESULTS". RESENTMENT IS EVIDENT OVER THE BRITISH APPROACH WITH A LIMITED OFFICIAL USE

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"SALES PACKAGE" AND LECTURES ON HOW THE CITY OF LONDON OPERATES. RATHER, IRANIANS BELOW THE MINISTERIAL LEVEL SEEM TO PREFER A DELEGATION COMPOSED OF FIRMS WITH FINANCIAL EXPERIENCE IN IRAN, WHO COULD RELATE (IN WORKING PAPERS CORCULATED PRIOR TO THE CONFERENCE AND VERBALLY) THEIR IRAIAN EXPERIENCE AND MAKE SUGGESTIONS DIPLOMATICALLY FOR IMPORVEMENT. THE ORGANIZATION OF THE CONFERENCE INTO WORKING GROUPS BY FINANCIAL SUBSECTOR WITH SUBSEQUENTLY ESTABLISHED PERMANENT COMMITTEES, AS OCCURRED IN THE UK/IRAN CONFERENCE, IS NOT FAULTED BUT SHOULD BE DONE ONLY IF A REALISTIC WORK PROGRAM CAN BE IDENTIFIED. THE LATTER IS SEEN AS BENEFITTING FROM CONTACTS FOLLOWING THE CONFERENCE. APPARENTLY MANY ASSIGNMENTS TO THE IRANIAN SIDE OF THE WORKING GROUPS AT THE UK CONFERENCE WERE HAPHAZARD AND LAST-MINUTE DESPITE THE EXISTENCE OF A COORDINATING GROUP. INVITATIONS ON THE IRANIAN SIDE TO PARTICIPATE IN THE CONFERENCE WERE RECEIVED IN SOME CASES BY PHONE UP TO THE LAST KAYS BEFORE THE CONFERENCE.

6. IN A JANUARY 7 MEETING WITH CBI VICE GOVERNOR BAHMAN HOMAYOUN, EMBOFF WAS TOLD THAT MINISTER OF ECONOMIC AFFAIRS AND FINANCE

ANSARY CONVENED A MEETING ABOUT TWO WEEKS AGO OF 15 PRINCIPALS FROM THE PUBLIC AND PRIVATE SECTORS OF THE FINANCIAL COMMUNITY TO PLAN FOR THE US/IRAN CONFERENCE. IN GENERAL, A PROPOSED AGENDA FOR THE CONFERENCE WAS DEVELOPED, WHICH FOLLOWS THAT OF THE UK CONFERENCE, AND IRANIAN SPEAKERS FOR THE CONFERENCE WERE IDENTIFIED. SINCE THE IRANIANS FOUND THE CO-CHAIRMAN ARRANGEMENT ON THE UK/IRAN PANELS AWKWARD, THEY ARE PROPOSING THAT IN THE US/IRANIAN CASE AN IRANIAN CHAIR EACH PANEL AND AN AMERICAN BE THE RAPPORTEUR. HE REGRETTED THE ABSENCE AT THE TIME OF A US-PROPOSED AGENDA AND HOPED TO HAVE EARLY CONTACT WITH US PLANNERS.

7. COMMENT: GIVEN THE SETTING DESCRIBED ABOVE, IT SEEMS EVIDENT THAT A FINANCIAL CONFERENCE OF SENIOR REPRESENTATIVES AND/OR OFFICIALS ON BOTH SIDES WOULD BE BASICALLY AN UMBRELLA FOR MORE SERIOUS BUSINESS TO BE CONDUCTED AT THE TECHNICAL LEVEL BEFORE, DURING AND AFTER SUCH A CONFERENCE. WE DO NOT WISH TO PREJUDGE POTENTIAL US PARTICIPANTS' ASSESSMENT OF THE VALUE OF THEIR ATTENDANCE OF WHAT THEY MAY GET OUT OF IT BUT LIMITED OFFICIAL USE

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SHOULD NOTE THAT FORM IS FREQUENTLY AS IMPORTANT AS SUBSTANCE IN IRAN. THEREFORE, IN THE ABSENCE OF AN UMBRELLA MEETING IT IS UNLIKELY THAT ONE CONFINED TO THE TECHNICAL LEVEL COULD BE EXPECTED TO ACHIEVE SIGNIFICANT RESULTS. IT IS SUGGESTED THAT FOREGOING BE SHARED WITH DAVID ROCKEFELLER AND OTHERS INTERESTED IN THE PROPOSED FINANCIAL CONFERENCE. HELMS

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